



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: September 9, 2008

TO: Finance Committee

FROM: Accounting Division, Finance Department

SUBJECT: Statement On Auditing Standards No. 114 - Auditor Communication With Those Charged With Governance

RECOMMENDATION: That the Finance Committee:

- A. Hear a report from staff on the new Statement of Auditing Standards No. 114 requiring the designation of a Council member or a Council committee to serve as the liaison between the City's independent auditors and City Council regarding matters associated with the conduct of the annual audit of the City's financial statements; and
- B. Recommend to Council the designation of the Finance Committee Chair to serve as the liaison in connection with the annual audit.

DISCUSSION:

The Government Auditing Standards Board has issued Statement on Auditing Standards No. 114 - Auditor Communication with those Charged with Governance (SAS 114). The provisions of SAS 114 are applicable to the City of Santa Barbara beginning with the audit of the City's financial statements for the fiscal year ended June 30, 2008.

SAS 114 was implemented in the wake of well publicized audit failures and emerging best practices in corporate governance, where expectations have increased for auditors to communicate openly and candidly with those charged with governance regarding significant findings and issues related to the audit. SAS 114 uses the term "those charged with governance" to refer to those with responsibility for overseeing the strategic direction of the entity's financial reporting process. It uses the term "management" to refer to those who are responsible for achieving the objectives of the City and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the City's financial statements.

SAS 114 describes the principal purpose of communication with those charged with governance and stresses the importance of effective two-way communication. It also requires the auditor to determine the appropriate person(s) in the government with

whom to communicate particular matters. These matters include, but are not limited to: 1) An overview of the planned scope and timing of the audit, 2) Representations the auditor is requesting from management, and 3) Any unresolved disagreements between the auditors and management.

Staff recommends that Council designate the Chairman of the Finance Committee to serve as the liaison with the City's independent auditors for purpose of the communications addressed in SAS 114. This would include meeting with the independent auditors during the annual financial audit as well as other times when additional communication is required.

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SUBMITTED BY: Robert D. Peirson, Finance Director

APPROVED BY: City Administrator's Office